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C O N F I D E N T I A L LA PAZ 000126

SIPDIS

USTR: BENNETT HARMAN; DOC: JULIE ANGLIN

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TAGS: [PREL](#) [BEXP](#) [ECON](#) [EFIN](#) [ETRD](#) [KTDB](#) [KTEX](#) [VN](#) [BR](#)  
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SUBJECT: BOLIVIA POST-ATPDEA: WOOL COATS TO CARACAS?

REF: A. 08 LA PAZ 2192  
[1](#)B. 08 LA PAZ 2118  
[1](#)C. 08 LA PAZ 2111  
[1](#)D. 08 LA PAZ 1793  
[1](#)E. 08 LA PAZ 1180

Classified By: Acting ECOPOL Chief Joe Relk for reasons 1.4b,d

[1](#)1. (C) SUMMARY. As of December 15, Bolivian exporters can no longer use the Andean Trade Promotion and Drug Eradication Act (ATPDEA) to send their goods tariff-free to the United States. While most goods can enter the United States under the General System of Preferences (GSP), many exporters, mainly in textiles, see the U.S. market as lost. The Bolivian government arranged for purchasing agreements with Venezuelan businesses to help cushion the blow to textile exports, but Bolivian businesses question the legitimacy and legality of the offers. The government will also do its share of subsidizing, funding a major textiles plant in El Alto to rival current textile giant Ametex as it simultaneously offers Ametex loans to offset increased tariff costs. Privately, business leaders share our skepticism about the sustainability of the government's dubious Band-Aid approach to ATPDEA, particularly as the economy and government revenue heads for a downturn in 2009. However, Bolivian businesses are also disappointed by the U.S. decision, arguing that the private sector should not have been punished for the government's mistakes. President Evo Morales announced that he would protest the ATPDEA suspension at the World Trade Organization (WTO) but later backtracked and said that he will give President Obama a chance to change the current policy before doing so. END SUMMARY.

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TEXTILES TIT FOR TAT  
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[1](#)2. (U) On September 25, President Bush announced his proposal to suspend Bolivia's benefits under ATPDEA. The U.S. Trade Representative (USTR) then held a 30-day review period to receive testimony on the issue. During the October 23 inter-agency review panel in Washington, the Bolivian private sector maintained that removing the benefits would promote illegitimate industries, such as drug trafficking. Bolivian ministers argued that the Morales Administration had not failed demonstrably in counternarcotics cooperation and implied the U.S. ATPDEA decision was made strictly on political grounds in response to the expulsion of Ambassador

Goldberg only weeks earlier. President Bush signed a proclamation November 25 to officially suspend Bolivia's benefits on December 15. On that day, textiles and leather manufacturers began to face tariffs of over 18 percent, while other ATPDEA products began to enter under GSP duty-free status. Separately, the U.S. Congress decided to include Bolivia in an extension of the ATPDEA legislation, but upheld the President's authority to determine compliance and gave Bolivia six months to improve counternarcotics cooperation. Instead, Bolivian President Evo Morales expelled the Drug Enforcement Administration (DEA) from Bolivia on November 1.

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"EXPORTING ICE TO ESKIMOS"  
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¶3. (U) Initial Bolivian reaction to the September 25 announcement was denial. Morales and his ministers, trying to calm private sector fears, announced the expansion of "new markets," including China, India and other Asian nations. Businesses publicly scoffed at the idea, likening selling Bolivian textiles to Asia to "exporting ice to Eskimos." Morales continued to push for new markets, but newspaper editorials called instead for a change in the government's attitude towards the United States. Many economic analysts and pundits pointed out that while expanding markets was generally a good idea, it could not replace the established U.S. market.

¶4. (C) Foreign Minister David Choquehuanca publicly discounted ATPDEA's benefits, pointing to the decline in textile exports to the United States over the past few years. Many business leaders countered that the lower numbers were based on the government's inability to secure a long-term trade agreement with the United States. Textile export numbers for 2008 indicate a further decline in the U.S. market, down to \$13.3 million from \$19 million in 2007.

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WITH A LITTLE HELP FROM MY FRIENDS  
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¶5. (C) After the initial ATPDEA uproar, Morales announced that the Venezuelan government would offset the loss of what he called "blocked markets" due to the suspension. (NOTE: The Embassy made an effort to explain markets were not "blocked" and that most exports could still enter the U.S. duty free. END NOTE.) Spearheaded by newly-appointed Minister of Production and Small Business Susana Rivero, a "Round of Negotiations" was held between Bolivian and Venezuelan companies November 11-14, 2008. Rivero hailed the rounds as a major successes and claimed that over 50 Bolivian companies participated. (NOTE: Contacts tell us that Rivero will be replaced by Pablo Guzman, currently Vice Minister of Foreign Economic and Trade Relations in the Ministry of Foreign Affairs, in March. END NOTE.)

¶6. (C) Venezuela is not the only country stepping in to ostensibly replace the U.S. market. In a speech on January 15, Brazilian President Luis Lula Inacio Da Silva announced that Brazil would open its normally heavily-protected markets for Bolivian imports in part to help his "buddy" Morales make up for ATPDEA suspension. Brazil imported approximately \$4 million dollars worth of Bolivian textiles in 2008.

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DO THESE T-SHIRTS SMELL FISHY TO YOU?  
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¶7. (C) Behind the scenes, Morales has been subsidizing a new textile production conglomerate called "EBIT," bringing seven "shareholders" together that combine resources to form a company. Roberto Maldonado, U.S. citizen and Embassy contact, is the brain behind the idea: "The key is to sell capitalism without using any of the terminology." Maldonado, who used to work for Ametex, left to open his own textiles business and soon recognized the opportunity. As Maldonado explains, "Once I saw it, I called my friend Javier (Hurtado,

former Minister of Production and Small Business) and told him my idea to combine these small producers." From there, Hurtado spoke with Morales, who supported the idea. The Bolivian government, through Venezuelan funds, gave the group \$3.5 million dollars. Each member received \$500,000 to update their businesses. All seven have combined and are currently operating out of a plant in El Alto with over 200 workers. Maldonado plans to expand the business to include plants in Cochabamba, Potosi, Oruro, and Copacabana. Morales himself inaugurated the El Alto plant on January 16, promising as much as \$20-30 million for the project. Maldonado reports that at the inauguration, Morales began speaking about the "softening of his opinions on U.S. trade," but didn't elaborate on any potential changes in attitude or action.

18. (C) In the round of negotiations with Venezuela, Maldonado's group initially didn't get any orders. Maldonado was dismayed to hear that Ametex had already received a contract. He called his contacts within the Government and said, "Don't make me tell Evo that his project received no orders while Ametex has contracts." Within two days, Venezuelans were calling and asking to negotiate with his group. Maldonado was prepared to bargain, but when he offered to sell T-shirts at \$5 a shirt, the Venezuelans counter-offered at a higher price of \$7.50 and said they had no preference for style, color, or brand.

19. (C) At first, Maldonado said he "really didn't care" why the Venezuelans had seemed eager to pay more than the asking price on the goods involved, but later told Emboff that he's not counting on something that "might not be real." Other businesses, such as medium-sized Orbol, were concerned about the deals. Orbol President Augusto Millares told Emboff that his experience at the round of negotiations amounted to very little and at lower prices than he expected. Millares said the deals do not come close to replacing the U.S. buyers he has sold to for years.

10.(C) Ametex, however, did take advantage of the program. Despite earlier telling Emboff that there was "no way" he would accept a deal with Venezuela, Ametex President Markos Iberkleid signed a contract during the round of negotiations, though he has yet to receive the promised official orders from the Venezuelan companies. Iberkleid is also using the special \$8 million government account set aside in February, 2008 to offset tariff costs in the event of ATPDEA suspension. As month after ATPDEA suspension, Iberkleid had received \$100,000. He called the fund a very short-term solution to a very long-term problem. Iberkleid said he will be keeping his U.S. suppliers, even if it means taking a loss on the goods sold. "We'll maintain 40 percent production for the U.S. market ... eventually (Venezuelan President Hugo) Chavez and Evo (Morales) will fail and we will be able to make a profit in the United States again." Iberkleid is very skeptical of Maldonado's textile group, implying that Maldonado has turned to shady deals with Venezuelan exchange-rate schemers to get his group off the ground (ref E).

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HIGH FASHION - HIGH DRAMA  
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11. (C) Textiles producers exporting high-end items report that their luxury goods have not seen a drop in demand. Yelka Maric, who specializes in alpaca sweaters and coats, told EmbOff, "For my suppliers, an 18 percent increase is not significant enough to cause them to decrease orders." High-end fashion designer Beatriz Canedo Patino agreed and told EmbOff that her clientele is not affected by arbitrary price jumps. She is more affected by "copy-cat" producers who steal her designs. Canedo noted that the confusion over ATPDEA has made it difficult to convince suppliers to buy from Bolivia.

12. (C) Alpaca sweater and coats producer Altifashion has not had the same luck. As a result of the suspension,

Altifashion created a sister company, Pitata, in Arequipa, Peru. Pitata will handle all of the U.S. market, with Altifashion doing basic work to be finished at and shipped duty-free from the new plant. Altifashion currently employs nearly 500 workers in Bolivia, but many of the employees may lose their jobs in the near future, as CEO Humbert Bohrt plans to move all of Altifashion to Peru to take advantage of the additional free-trade options with Chile, China, and Korea.

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PRIVATE SECTOR DISPLEASURE  
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¶13. (C) Many business leaders feel betrayed by the ATPDEA suspension. At a lunch for ATPDEA impacted companies hosted by the Charge, many asked, "Why wasn't there a way to punish the Government without punishing the private sector?" Most understand that the suspension was the next step, but repeated their USTR testimony, arguing that the suspension will only push people further into illegitimate jobs. Many said that the Asian producers will quickly take over their U.S. buyers, leaving no room for Bolivians. Even if the ATPDEA suspension is reversed, they feared it would come too late.

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COMMENT  
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¶14. (C) Morales has high expectations for ATPDEA renewal under the Obama Administration. After announcing his government would complain to the WTO about the ATPDEA suspension, Morales back tracked and said he will wait until President Obama has the chance to renew ATPDEA. Morales does not appear to understand the inherent link between

counter-narcotics cooperation and renewal of ATPDEA. Morales has followed through on his expulsion of DEA and has publicly said that DEA will not return while he remains in power. Post does not expect any imminent improvement in Morales' counternarcotics cooperation with the United States. While the government's collection of Band-Aid measures to offset the impacts of ATPDEA suspension may keep Bolivia's textile industry above water for the short term and mute public criticism of the Morales Administration, we do not see the government's "coats to Caracas" approach as economically sustainable, particularly as government budgets and the overall economy are expected to face significant strains in ¶2009. By the time national elections are scheduled in December, ATPDEA suspension could well develop into an election issue. END COMMENT.  
LAMBERT